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C O N F I D E N T I A L SECTION 01 OF 02 RIGA 000228

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TAGS: PGOV KCOR KJUS ASEC LG
SUBJECT: HERE WE GO AGAIN - ANTI-CORRUPTION CHIEF UNDER FIRE

Classified By: Charge Stuart M. Seldowitz. Reason: 1.4 (d)

¶1. (C/NF) Summary: Two separate events have brought a new focus on anti-corruption chief Aleksejs Loskutovs, whose attempted removal from office last fall brought down the Kalvitis government. Two members of his staff have been sacked for stealing money seized in investigations, and indicted Ventspils mayor Aivars Lembergs has suggested that Loskutovs tipped him off before his March 2007 arrest. The press coverage has been breathless and former PM Kalvitis has been ebullient in claiming his vindication. The Prosecutor's office has opened an investigation into the missing money and many politicians are so far reserving judgment. Loskutovs has said that there is no reason for him to step down, but admitted privately that he felt this crisis was worse than the one last fall. While the available information does not to us appear to point to illegal activity by Loskutovs, it does suggest that he is not the best manager and he displayed poor judgment in agreeing to meet with Lembergs. The bigger problem is that a public perception is beginning to develop that these problems are real and serious, and that Loskutovs and the anti-corruption agency are just as bad as everyone else when it comes to corruption. If that perception hardens, then Loskutovs' own assessment that this is a worse situation than last fall could be proven correct. End summary

¶2. (U) The story began April 17 when the KNAB, Latvia's anti corruption agency, announced that two officials were suspended for stealing money seized in an investigation. Press reporting made it seem as those the people involved were law enforcement agents of the KNAB who were simply keeping some of the money they found on raids.

Prosecutor-General Maizitis confirmed that he had opened a criminal probe in the case and hopes to have the results by the end of May. Former PM Kalvitis could barely contain his glee at suggesting this showed he was right when he tried to remove Alksejs Loskutovs as head of the KNAB last fall, allegedly for poor financial management.

¶3. (U) The story was compounded by a suggestion in an interview with a men's magazine by Ventspils mayor Aivars Lembergs, indicted on multiple corruption charges, that "Losha" (Russian diminutive for Loskutovs' first name) had given him advance word of his arrest. In a subsequent rambling press conference, Lembergs seemed to suggest that he had met with Loskutovs while under investigation and that Loskutovs had assured him that all would be fine in his case.

Loskutovs has said publicly that he is prepared to sue Lembergs for defamation and asked the prosecutor's office to examine the claims.

¶4. (U) The press coverage of the two incidents has been extensive and breathless. One paper printed unsourced suggestions that KNAB agents were using money seized in raids as down payments in lucrative property transactions. Another reported that Loskutovs had "sworn allegiance" to Lembergs at one point. Even Diena, Loskutovs' and the KNAB's biggest defenders last fall, said that a "black cloud" hung over the KNAB. Another journalist who often covers corruption issues told emboff she was personally disappointed in the chain of

events.

¶ 15. (U) Many political figures, including President Zatlers and PM Godmanis, are saying little, if anything, about the case, with most saying that will await word from the prosecutor about his investigations.

¶ 16. (C/NF) DCM and pol/econ chief met with Loskutovs April 29 to discuss the situation. Loskutovs opened by saying that he thought the current situation was "worse than last fall" and that it had impacted "the prestige of the agency." Regarding the missing money, he said it was an "unpleasant surprise" because he "trusted those colleagues." Loskutovs said that money was seized in raids and kept as physical evidence because fingerprints, DNA or the kind of money used could be useful in making a case. He said it was stored under the supervision of the two individuals, now suspended, both of whom had top secret security clearances. He claimed that they stumbled across the missing money by accident - they needed to provide for subsistence of someone from whom money was seized and the staff handling it delayed. When they eventually counted, KNAB officials found that 56,000 lats (roughly USD 125,000) were missing from among money seized in several cases.

¶ 17. (C/NF) Loskutovs said that he immediately informed Prosecutor General Maizitis about the missing money and turned the case over to him for investigation. He said he also directly informed PM Godmanis, who oversees the KNAB. On April 18 he claimed that he was summoned to see President Zatlers. The President was "surprisingly well briefed," which Loskutovs attributed to his security advisor, Rozkalns

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(who was rumored as a candidate to replace Loskutovs last fall), and very critical of Loskutovs. The President then called for a national security council meeting on April 21 to discuss the case. Loskutovs claimed that this is improper as KNAB is not a state security agency. (Comment: We do not have separate confirmation that the meeting occurred or that KNAB is not under its jurisdiction, but also have no reason to doubt Loskutovs' account. End comment.) While the overall situation was bad, Loskutovs said that he felt better than last fall since Maizitis is in charge of the process. This means that that "the rules are clear" and it is not "a political game."

¶ 18. (C/NF) Turning to Lembergs, Loskutovs claimed to have had three meetings with him - one before being selected as KNAB chief (which he admitted last fall) and two since being on the job, both at Lembergs' request. The first of those was worthless; Lembergs was drunk and incoherent. In the second, though, Lembergs put great pressure on Loskutovs to keep a senior investigator sacked for using psychotropic drugs. Lembergs reportedly said that the individual was a "key source" for information on the activities of KNAB and the prosecutor's office. Loskutovs claimed that he taped the conversation, turned the tape over to the prosecutor's office, and that the tape was used as evidence in a closed hearing last year to keep Lembergs under arrest. He said the existence of such a tape is known only to a few people as it very directly shows Lembergs attempting to control a government official. The official Lembergs wanted to keep on was restored to office after appealing his removal in court, but he was later fired when he tipped off a judge, under investigation for taking bribes, that she was being watched.

¶ 19. (C/NF) In a separate conversation with pol/econ chief, Juta Strike, head of investigations at the KNAB, told much the same story on recent events. She added that she was at least willing to consider the possibility that the theft of money was arranged by "political forces" threatened by the KNAB's activities in order to embarrass and undermine Loskutovs and that the prosecutor's office would examine that possibility. She also added that the Lembergs interview had been done before the revelation of the missing money, so she

didn't think the timing of the two events was coordinated, merely fortuitous for the enemies of KNAB. Strike added a personal aside -- she thinks very highly of Loskutovs, but acknowledges that his academic background meant he came to the job without extensive management experience and that has hurt him.

¶110. (C/NF) Comment: We lack the full evidence necessary to draw firm conclusions in this case. Maizitis' investigation will be essential in this regard. But based on what we do know, we can draw some preliminary conclusions. First, we agree with Strike that Loskutovs' background did not provide him much management experience before taking on this job.

Perhaps a third deputy director, solely for management/administrative issues, would be beneficial. Loskutovs admitted that he considered this last fall, but did not follow through. Second, Loskutovs did not exhibit good judgment in agreeing to meet Lembergs, especially on Lembergs' terms. Any such meeting should have taken place either at the KNAB or a prosecutor's office to dispel any suggestions that there were secret negotiations going on, and probably should have included at least one other officials from KNAB or the prosecutor's office. Based on current evidence, though, neither of these missteps would strike us as being enough to remove Loskutovs from office. The problem is, though, that a perception of reality is beginning to form that Loskutovs is a weak manager and maybe the charges leveled last fall against him weren't so crazy, and that he has, at a minimum, had conversations with Lembergs that create a perception of untoward activity. If those two perceptions harden into conventional wisdom in Latvia, Loskutovs could find himself in trouble. The tepid support from Diena and other influential media hasn't helped. But a long holiday weekend came at a good time for Loskutovs and put a natural break to the breathless coverage.

Additionally, Loskutovs' enemies lack personal credibility on the issue, given their own issues with allegations of corruption. We don't believe there is enough information currently available to suggest that Loskutovs has himself done anything illegal and his opponents learned last fall that absent hard facts there could be blow back against them if they try to sack Loskutovs now. All of this means that Maizitis' investigation will carry a lot of weight. The Ambassador plans to meet with the Chief of Staff to President Zatlers and with PM Godmanis personally to praise both for being restrained to date and to urge both to await Maizitis' findings before pronouncing on the case and Loskutovs' future.

SELDOWITZ